



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON REGIONAL OFFICE
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FALLS CHURCH, VIRGINIA 22046

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Mr. Clyde C. Cook, Director
Veterans Canteen Service
Veterans Administration
Vermont Avenue between H and I Streets, NW.
Washington, D.C. 20420



Dear Mr. Cook:

As you know, we have completed our audit of the Veterans Canteen Service (VCS) fiscal year 1974 financial statements and our report to the Congress is in process. Several minor matters disclosed by our audit were discussed and satisfactorily resolved with VCS officials at the Washington Field Office and at the Central Office Finance Division. We did note one matter which we believe warrants your attention since it presents the opportunity for improvement in the financial management controls of VCS.

As a part of our audit each year, we review the efforts of the VCS internal audit staff. We found this year, as in previous years, that we could rely on their work to reduce the scope of our own detailed examination. We have observed, however, that the position of the internal audit staff in the VCS organization could be changed to provide a greater degree of independence for the auditors.

GAO recently published a booklet on "Internal Auditing in Federal Agencies" (copy enclosed) which emphasizes the need for independence for the internal auditor, stating that his position in the organization should be such that he is independent of the officials who are directly responsible for the operations he reviews. The booklet points out that, to provide an adequate degree of independence, the internal auditor should be responsible to the highest practical organizational level, preferably the agency head.

We found that although audit reports are addressed to the Director, the internal audit staff is organizationally positioned under the Chief of Finance Branch, the official directly responsible for the financial operations the auditor reviews. There is no indication that this

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currently presents problems or inhibits the work of the internal auditors. However, we suggest that, to provide a greater degree of independence for the internal audit staff, the internal audit function be realigned so that the internal auditor is responsible to the Director.

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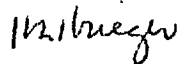
In addition, we have discussed with you and your staff the need to update the accounting equipment in the field offices. Your staff has identified several reasons the present equipment is inadequate:

1. Financial information for management decisionmaking cannot be produced on the present equipment.
2. Manually prepared information cannot be made available as quickly as is desirable.
3. Posting errors occurring on these machines are difficult and time-consuming to find and correct.

We indicated at our original meeting that, while we agreed that these problems require correction, there is a need to review the current system for collecting and compiling information before a reasonable decision on new equipment needs can be made. In this regard, we have agreed to assist you in evaluating your equipment needs by conducting a brief survey of the data flow at the canteen and field office levels. We plan to provide you with our survey findings and to discuss with you an approach to upgrading your present equipment.

We would appreciate being informed on actions taken or planned with regard to the suggestion included in the letter. We would also like to express our appreciation for the courtesies and cooperation extended to us during our audit at the selected canteens, the Washington Field Office, and the Central Office.

Sincerely,



H. L. Krieger
Regional Manager

Enclosure